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ABSTRACT

In the United States, Great Britain, the Netherlands, and Denmark, employment trends have been considerably more favorable than in Germany. A country is considered successful in an employment policy context if unemployment is falling steadily or is low and if employment is increasing steadily or the employment rate has reached a high level. Everywhere, low-skilled workers are affected by unemployment to a disproportionately high degree. In the United States, a lower rate of economic growth is sufficient to trigger a one percent increase in employment. The employment threshold, the level of economic growth that triggers an increase in employment, is close to zero in the United States. In Germany, the employment threshold is a Gross Domestic Product growth of about two percent and shifting upward. The Netherlands and the United States show the highest increases in employment. Increases in the Netherlands are due to increased part-time employment predominantly among women who previously had a low labor force participation rate. In both countries, the increase in the population of working age people plays an important role. In regards to wage disparities, the European countries differ from the United States, where the disparities were considerably greater at the upper and lower ends and have increased even further over time. Common features for employment policy success are the following: (1) a comprehensive macroeconomic approach; (2) a favorable framework for investment and consumption; (3) liberalized markets for goods and services; (4) decentralized systems of wage determination; and (5) moderate wage increases. (YLB)

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No. 33

Institut für Arbeitsmarkt- und Berufsforschung

Institute for Employment Research

Heinz Werner

Countries With Successful Employment Policy - What Is Behind Their Success?

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- technological development and the labour market
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Heinz Werner*

Countries With Successful Employment Policy - What Is Behind Their Success?

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0 Abstract

In the USA, Great Britain, the Netherlands and Denmark the employment trend has been, at least in recent years, considerably more favourable than in Germany. The experiences of these countries show that there is a certain variety of ways to create more employment. In this respect there can be no patent remedies that can simply be copied. A look beyond borders, however, reveals common features for success in employment policy matters. Thus it was important to have a comprehensive macroeconomic approach in order to achieve success on the labour market. Experience shows that reforms must be thoroughly coordinated and agreed, for example with fiscal and social policy. Isolated partial reforms only result in partial success. In each case a favourable framework has been created for investment and consumption, for example through fiscal policy and monetary policy, as well as in taxation policy, for example by reducing direct taxes and placing greater emphasis on indirect taxes. Moderate wage increases and decentralised systems of wage determination have promoted an increase in employment in all of the countries under consideration. Even in the Dutch and Danish labour markets, which are strongly characterised by collective agreements, an increasing number of flexibilisation possibilities have been introduced into these agreements, for example regarding working hours. Furthermore low non-wage labour costs have reduced the costs of employing the workforce.

1 Other countries with successful employment policy

If at the beginning of the 1990s a ranking had been drawn up of the countries with successful employment policy, the order of the successful "country models" would have been very different from the order today. Japan would have been at the top of the list. Japanese organisation of work, the cooperation between the Ministry of Planning and the economy, especially the banks, was highly praised. But Germany, too, would have been in the top group at that time. The Netherlands, Denmark and the USA would have been at the lower end of the ranking. The example of the USA is particularly informative. At that time the USA was still in the grip of a deep economic recession and was looking abroad for ideas. Today the situation has reversed. Japan is in a state of economic crisis, and in Germany the unemployment figures have reached a new record high; employment had been falling for some years until very recently. In contrast with this the USA is in its eighth year of an economic upturn, unemployment has fallen to its lowest level in almost 30 years, employment has been increasing steadily for decades; so word is spreading about the American "employment miracle". But in a number of European countries, too, unemployment is falling and employment is rising again. In this respect it is worth taking a look across the borders to see how this development has come about. What mechanisms have played a role in the success on the labour market and what experiences can be drawn from it? These questions are the subject of the following report.[1]

[1] The background to this report is a workshop on international experience of employment policies in other countries. This workshop was held in Nuremberg on 23 April 1998 on the initiative of the self-government board of the Federal Employment Services. The discussion was based on four country reports which were prepared by research institutes for the workshop. The countries studied were Great Britain (IfW in Kiel), the USA (Ifo in Munich), the Netherlands (DIW in Berlin) and Denmark (RWI in Essen). Furthermore reference is made to the four reports (IABkurzberichte) on the labour market in the USA (No. 1 of 14. 2. 1997), Denmark (No. 13 of 29. 5. 1998), Great Britain (No. 8 of 17. 4. 1998) and the Netherlands (No. 12 of 12. 12. 1997). They can be found on the Internet under http://www.iab.de and can be downloaded from there. A detailed account concerning the USA has been published in: Heinz Werner (1997): Die Arbeitsmarktentwicklung in den USA - Lehren für uns?, in: Mitteilungen aus

The report begins with some remarks as to what is understood by "successful employment policy". This is followed by a description of and comments on unemployment. Employment is then dealt with, the empirical relationship between economic growth and employment trend is described briefly and then the components of employment growth from the supply side and from the demand side are examined. Finally a conclusion is drawn from the experiences of other countries. What explanations can be found for their success in employment policy matters? What areas contributed to this success?

2 What is meant by "successful employment policy"?

In current usage a country is considered successful in an employment policy context if unemployment is falling steadily or is already low and if employment is increasing steadily or the employment rate has already reached a high level.

In the case of both unemployment and employment it is necessary to analyse what kind of unemployment and employment it is. Does the given unemployment rate under boom conditions represent the full employment rate? Is it structural or cyclical unemployment? The OECD defines structural unemployment as the proportion of the unemployed who does not find work even in an economic upturn and which therefore cannot be influenced directly by means of macroeconomic policies.[2] Structural unemployment is more difficult to eliminate by means of employment policy than cyclical unemployment and should be evaluated more negatively when comparing countries.[3]

Questions also arise concerning the employment or labour force participation rate. What constitutes a high rate of employment? Is it right to strive for the highest possible labour force participation rate at all? Why should the greatest possible number of people be in employment? Or is it sufficient to have highly productive activities for a smaller number of people who then help to support the economically inactive from their high wages? What kind of employment is it: full-time, part-time, permanent, fixed-term? If, for example, employment is counted according to the number of people, the result can be a misleading picture if part-time rates vary considerably and have developed in very different ways. For comparison purposes it would be better for instance to express employment in terms of the volume of work, for instance the total number of hours worked by all workers together in one year. Furthermore it is necessary to ask the question as to whether a person can earn a living from his work. Or do many working people run the risk of becoming working poor?

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der Arbeitsmarkt- und Berufsforschung, No. 3, p. 585 ff. The country reports by the research institutes on the labour markets in Denmark, Great Britain, the Netherlands and the USA are printed in Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1998. The consequences for Germany resulting from the experiences of other countries are also described in detail in the report by Ulrich Walwei in MittAB 2/1998.

2 Cf. OECD (1994). The jobs study - evidence and explanations, Paris, p. 66

3 Unfortunately there is no direct measure of structural unemployment. One possibility is to determine the so-called "nonaccelerating inflation rate of unemployment". This is calculated using econometric models whose equation systems reflect the relationships of the economy and the labour market. By means of simulations the level of unemployment is ascertained at which a further economic recovery would not reduce unemployment but would push up inflation. This would be the case if the available production capacities were being used to the full. Even in the case of capacities being used to the full, unemployment would still exist. A reduction of this unemployment would then only be possible via a change in the basic economic conditions e.g. a reduction in working hours, a slowdown in the progress of productivity, training measures, or capacity-expanding investment. Otherwise a job deficit will remain, as a result of which long-term unemployment arises.

In this report we wish to proceed pragmatically and single out a few countries in which unemployment has declined from a comparatively high level in the past to a low level in recent years and where employment has increased at the same time. The countries taken as examples of this are the USA, Denmark, Great Britain and the Netherlands.

3 Unemployment

Figure 1 shows the unemployment rates for the four countries included in the study and for Germany. It is necessary to point out that the figures for the EU countries are those given by Eurostat (Statistical Office of the European Communities) and not the numbers of people registered as unemployed at the employment offices. The Eurostat figures are preferable for comparison purposes. They have a comparable basis, which is a representative household survey based on a standardised questionnaire. A similar survey is also conducted in the USA, so there is a certain degree of comparability for the five countries.

Figure 1 : Unemployment rates in selected industrial countries 1983 - 1997
in percent

As of 1991, Germany including new *Länder*
Source: OECD, Eurostat

With regard to Germany a further comment is necessary: since 1991 the unemployment rate has been given for Germany as a whole, i.e. including the new *Länder* (the former East German states), as Eurostat no longer publishes separate rates for eastern and western Germany. Therefore comparability over time is no longer guaranteed for Germany. The increase in unemployment since 1990

would not have been so sharp for western Germany alone as it appears in *Figure 1*. Nevertheless a considerable rise in the unemployment rate would still have been detected for western Germany too - in contrast to the decrease in the four other countries studied here.[4]

With regard to the structure of unemployment it can be said that everywhere the low-skilled are affected by unemployment to a disproportionately high degree. Unemployment is also above average for the young and for ethnic minorities. In the European countries the proportion of long-term unemployed (unemployed for at least a year) remains very high. It ranges between some 30% in Denmark and almost 50% in the Netherlands. In spite of good economic conditions in both of the countries, the long-term unemployed have benefited from this to a lesser extent. It will remain necessary to provide considerable labour market policy efforts for the hard-to-place unemployed. The situation is somewhat different in the USA: whereas there, too, the low-skilled, young people and ethnic minorities are more seriously affected by unemployment, the unemployment rates of older people correspond to the average (which is not the case in the European countries) and the proportion of long-term unemployment stands at about 10%. This certainly has something to do with the low level of earnings-replacement benefits (e.g. unemployment benefit) in the event of unemployment and with the short period for which these benefits are granted. In this way pressure is exerted on people to take up a job, even one that may pay less, since other social transfers are either low or non-existent.[5]

4 Employment

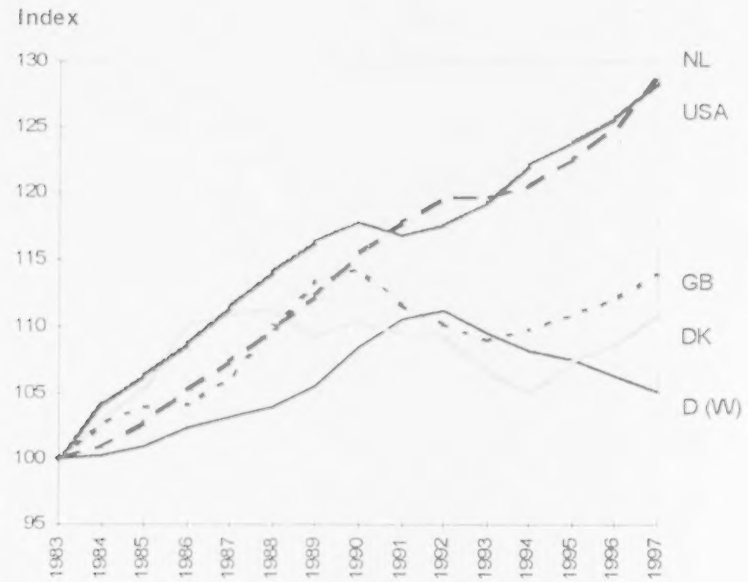
4.1 Overview

Figure 2 shows an initial overview of the employment trend. By far the highest and most continuous increases in employment can be seen in the USA and the Netherlands. In the Federal Republic of Germany the employment trend began to fall from 1992. Similar breaks in the upward trend had also occurred a few years previously in Great Britain and Denmark, though there they have since reversed again. Thus in the meantime Germany is the only country in the European Union in which employment has continued to fall. However, a new trend is becoming visible in 1998.

[4] It is possible to make a rough estimate of unemployment for Germany (W) according to Eurostat methods if one assumes that the relations of the unemployment rates for western and eastern Germany to the overall unemployment rate are the same for the figures of registered unemployed and for the Eurostat rates. Following this hypothesis an unemployment rate for D (W) is obtained of about 7.7% for 1996 according to Eurostat methods. This would almost correspond to the figure for GB in that year, but would still mean a considerable increase since 1990. Furthermore it must be taken into consideration that unemployment has fallen still further in GB in the meantime, whereas it has continued to increase in Germany. However, in 1998 registered unemployment in Germany (W) fell slightly for the first time. It must also be taken into account that the increase in unemployment in D (W) has been strongly shaped by the unification, since from that point in time the supply of labour in D (W) increased permanently as a result of eastern Germans moving west or commuting.

[5] Health insurance cover proves to be particularly problematic. As in the USA most workers are insured against sickness by reason of their employment via the company, this protection is discontinued if they are laid off. It is also not paid via the unemployment insurance scheme - as it is in Germany.

Figure 2: **Employment trend in selected industrial countries 1983 - 1997**
Index 1983=100



Source: OECD, Eurostat, Centraal Bureau voor de Statistiek

Can different trends in employment be attributed to different economic growth rates? A first overview of economic growth (gross domestic product, GDP), employment and unemployment in the countries examined here is given in *Table 1*.

Table 1: **Economic growth, employment and rates of unemployment in Denmark, Germany, Great Britain, the Netherlands, the EU and the USA**

	1986-90	1991-95	1996	1997*	1998*	1999*
			Denmark			
GDP growth (real)	1.4	2.0	2.7	2.9	2.7	2.8
Employment growth	0.3	-0.3	1.1	2.2	1.2	0.8
Unemployment rate	6.4	8.6	6.9	6.1	5.4	5.1
			Germany**			
GDP growth (real)	3.4	2.1	1.4	2.2	2.6	2.9
Employment growth	1.5	-0.4	-1.2	-1.4	-0.1	0.9
Unemployment rate	5.9	7.3	8.8	9.7	9.8	9.4
			Great Britain			
GDP growth (real)	3.3	1.3	2.3	3.5	1.9	2.2
Employment growth	1.8	-0.9	0.4	1.6	0.6	0.5
Unemployment rate	9.0	9.5	8.2	7.1	6.5	6.3
			Netherlands			
GDP growth (real)	3.1	2.1	3.3	3.3	3.7	3.2
Employment growth	1.9	0.7	1.8	2.3	2.1	2.0
Unemployment rate	7.4	6.4	6.3	5.3	4.4	3.8
			EU-15			
GDP growth (real)	3.3	1.5	1.8	2.7	2.8	3.0
Employment growth	1.3	-0.6	0.1	0.4	0.8	1.1
Unemployment rate	8.9	10.0	10.9	10.7	10.2	9.8
			USA			
GDP growth (real)	2.8	2.0	2.8	3.8	2.5	2.1
Employment growth	2.1	1.1	1.4	2.2	1.8	1.0
Unemployment rate	5.9	6.6	5.4	4.9	4.6	4.9

* 1997, 1998 and 1999: estimates
** Until 1991/92: western Germany

Source: European Commission (1998): Spring forecast

It can be seen that Germany was not in such a bad position at all until the beginning of the 1990s. In the 1980s and the early 1990s the GDP growth rates were above the EU average. It was not until 1993 that the situation deteriorated in Germany, while the economic and labour market situations in the other countries were improving. Germany's economic growth is not expected to come into line with that of the EU until 1999. One of the reasons for this is that the recession that began in most of the industrial countries at the beginning of the 1990s was postponed in Germany as a result of the unification boom. Taking this time shift into account, economic recovery is also expected to begin in Germany now.

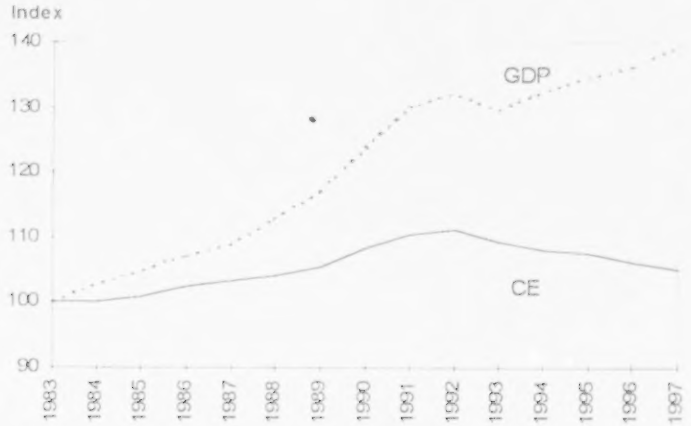
One possibility to illustrate the relationship between the development of gross domestic product (GDP, as an indicator of economic growth) and employment is shown in *Figures 3a* to *3e*. They

illustrate that employment continued to fall only in Germany and that economic growth and employment diverge particularly widely in the case of Germany. In other words it is also possible to say that with similar economic growth in the USA or in the Netherlands, for example, employment has increased far more than in Germany. The economic growth in Germany which has been rising again since the mid-1990s, together with falling employment is also indicative of an increase in productivity. This will be dealt with later on in this report.

Figure 3a: **Gross domestic product (in 1990 prices) and persons in civilian employment 1983 - 1997 in Denmark**
Index 1983 = 100

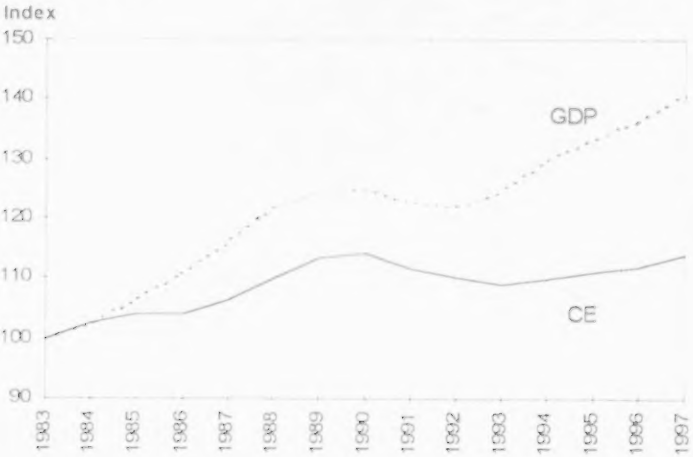
Source: OECD (1997): Labour Force Statistics 1976-1996;
OECD (1998): National Accounts, Vol. I, 1960-1996;
European Commission

Figure 3b: **Gross domestic product (in 1990 prices) and persons in civilian employment 1983 - 1997 in Germany (west)**
Index 1983 = 100



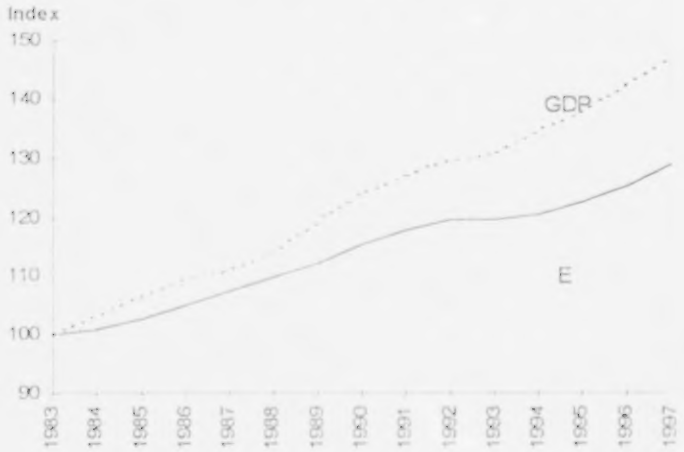
Source: Eurostat (1996): Beschäftigung und Arbeitslosigkeit 1980-1994;
OECD (1997): National Accounts, Vol. I, 1960-1995;
1995 to 1997 - estimates

Figure 3c: **Gross domestic product (in 1990 prices) and persons in civilian employment 1983 - 1997 in Great Britain**
Index 1983 = 100



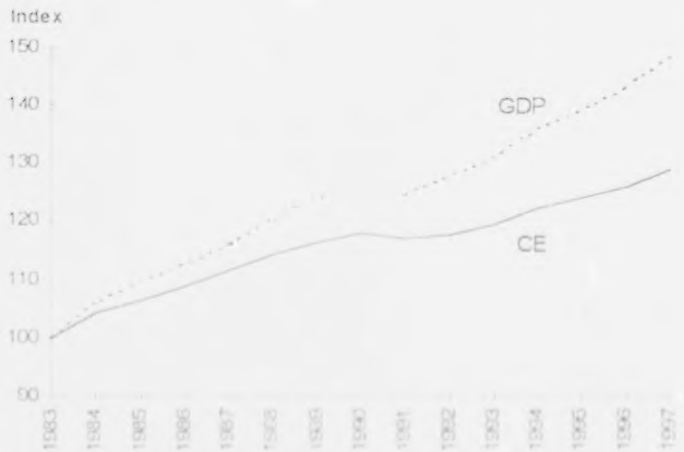
Source: OECD (1997): Labour Force Statistics 1976-1996;
OECD (1998): Quarterly National Accounts, No. 1

Figure 3d: Gross domestic product (in 1990 prices) and persons in employment 1983 - 1997 in the Netherlands
Index 1983=100



Source: Centraal Bureau voor de Statistiek;
OECD (1998): National Accounts, Vol. I, 1960-1996

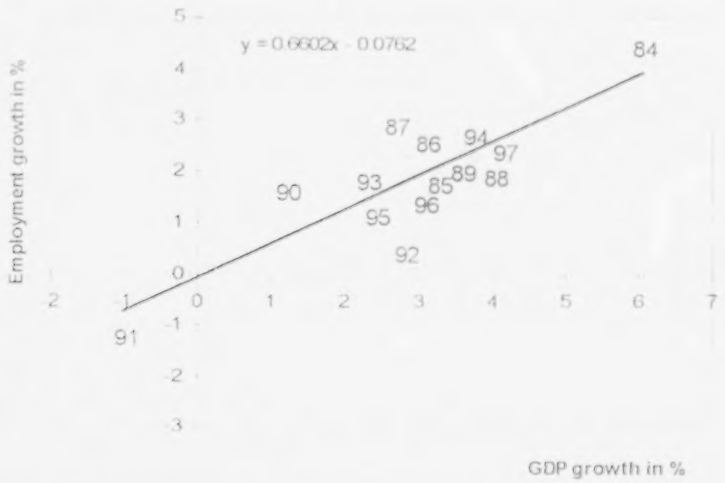
Figure 3e: Gross domestic product (in 1992 prices) and persons in civilian employment 1983 - 1997 in the USA
Index 1983 = 100



Source: U.S.Department of Labor, Employment and Earnings, January 1998;
OECD (1998): National Accounts, Vol. I, 1960-1996

Some more comments can be made on the relationship between economic growth and employment. This relationship can be expressed in terms of the employment intensity, i.e. the way employment changes if GDP rises (or falls) by 1% for example. This relationship is shown in graphic form in *Figures 4a* and *4b*, taking as examples the USA and Germany. The figures show annual changes in employment against the annual GDP growth rates. The regression line marked represents this relationship. The slope of the lines indicates the employment intensity of the economic growth. In the case of the USA a lower rate of economic growth is sufficient to trigger a 1% increase in employment for example. What is also interesting is the point at which the lines meet the x-axis. This indicates the so-called employment threshold, i.e. the level of economic growth that will trigger an increase in employment. In the case of the USA this point is close to zero. In the USA therefore a low level of economic growth is sufficient to make employment rise. In the case of Germany the employment threshold is a GDP growth of about 2%. In the past few years this threshold has shifted even further upwards - towards higher economic growth. Even higher GDP growth is therefore needed to make employment increase again.[6]

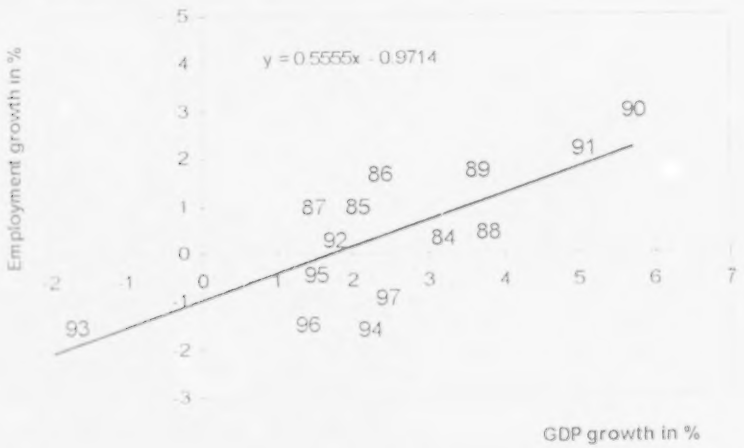
Figure 4a: **USA: Growth rates 1984-1997 of GDP** (in 1992 prices) and of persons in civilian employment



Source: US Department of Labor: Employment and Earnings, January 1997;
OECD (1998): National Accounts, Vol. I, 1960-1996;
OECD (1998): Economic Outlook No. 63, June 1997

[6] This is a change in the long-term trend for Germany. The employment threshold has been falling apart from the last few years.

Figure 4b: **Germany (west): Growth rates 1984-1997 of GDP (in 1990 prices) and of persons in civilian employment**



Source: Eurostat (1996): Beschäftigung und Arbeitslosigkeit 1980-1994; OECD (1996): National Accounts, Vol. 1, 1960-1994; 1995 to 1997 IAB

In order to bring out the differences between the countries and the features they have in common, the components of employment growth are described in the following section. Here first the supply side (demography) of the labour market is taken as a starting point, and in a second approach the demand side (economic growth) is taken as the starting point.

4.2 The labour market - the supply side

The demographically orientated components of employment growth can be shown by means of the following identity equation:

$$EP = Pop \times AR \times ER$$

This identity is composed as follows:
$EP = Pop \times LF/Pop \times EP/LF$
where: EP = employed persons
LF = labour force (employed + unemployed)
Pop = population of working age
LF/Pop = activity = AR
EP/LF = employment rate = ER

This relationship can be expressed approximately in terms of growth rates. In this way the contribution of the individual components can be made visible and it is possible to compare the countries. It should be pointed out here that this is a division that does not say anything about the

causes. If the changes for the period 1983 to 1995 are calculated as percentages for the relation above, then the values shown in *Table 2* are obtained.

Table 2: **Components of employment growth on the supply side** (demography and employment behaviour)
Changes 1983-1995, in percentages

	EP	Pop	AR	ER
DK	7.5	4.4	-1.9	5.0
D (W)	8.5	6.4	2.3	-0.4
GB	9.9	3.4	3.3	2.9
NL	22.5	8.9	10.2	2.1
USA	23.2	10.7	6.6	4.3

Sources:
OECD, Eurostat, Centraal Bureau voor de Statistiek, own calculations

From *Table 2* it is possible to recognise common features and divergences between the countries. They require further comment in many ways, since different causes may be behind the particular quantities and therefore for example an equal change in percentage terms can arise in different ways depending on the country. As was already clear from *Figure 2*, the Netherlands and the USA show the highest increases in employment. As far as the Netherlands is concerned this has largely to do with the almost explosive increase in part-time employment. This form of work is predominantly done by women. As the labour force participation rate of women was relatively low in the Netherlands, there was a considerable need to catch up with other countries. The increase in the labour force participation rate of almost 10 percentage points between 1983 and 1995 in the Netherlands can be attributed to the increasing economic activity of women. However, in the case of the Netherlands the increase in the population of working age also plays an important role which underwent an even greater change only in the USA. Both of these countries have a relatively "young" population, which is also reflected in the increase in the population of working age. In the USA this is also associated with the high level of migration. Every year between 800,000 and 1 million people migrate to the USA. Migration also played a considerable role in Germany in the period observed, and explains why there, in spite of the "old" population, the number of people of working age has also nevertheless increased by more than 6%. Migration did not play such an important role in the three other European countries during the period observed. What is also striking is the drop in the labour force participation rate in Denmark. Denmark already has the highest labour force participation rate of all the EU countries, at 81%, and this can not increase further at will. The slight drop in the rate by 1.9% is due firstly to the earlier retirement age and secondly to the longer period of training for young people. The differences in the employment rates - the third component from *Table 2* - are connected with the change in unemployment.[7] It was possible in the other countries, particularly in the USA, to raise the employment rate and analogously to this to reduce the unemployment rate by means of job creation.

[7] The increased employment rates - understood here as the part of the labour force that is in employment - can be attributed to the reduction in unemployment. By means of transformation it is possible to show that EP/LF = 1 - UR/100, UR = unemployment rate.

4.3 The labour market - the demand side

The macroeconomic determinants on the demand side of the labour market can be seen from a different identity equation in which the national product (economic growth) is split up into the following components: hourly productivity, annual working time and number of employed persons:

$Y = EP \times AWT \times LP$

The identity
$Y = EP \times AWT \times LP$
is composed as follows:
$Y = EP \times AV/EP \times Y/AV$
where: Y = GDP
EP = employed persons
AV = annual total volume of work in hours
AV/EP = average annual working time per employed person in hours = AWT
Y/AV = labour productivity per hour worked = LP

This can be expressed approximately in growth rates for the period 1983 - 1995 (*Table 3*).

Table 3: **Components of employment growth on the demand side**
(economic growth)
Changes 1983-1995, in percentages

	Y	EP	AWT	LP
DK	29.1	7.5	-2.4	23.1
D (W)	34.7	8.5	-9.3	37.0
GB	32.5	9.9	0.9	18.4
NL	37.8	22.5	-9.7	24.5
USA	41.2	23.2	3.7	10.5

Sources:
OECD, Eurostat, Centraal Bureau voor de Statistiek, own calculations

The USA and the Netherlands are well ahead as far as employment growth is concerned. Can this be attributed to a higher level of economic growth? In the period under observation the differences are not so great that economic growth alone could explain the strong increase in employment. This could already be seen from *Table 1* and *Figures 3a* to *3e*. Only in the past few years has the economic situation in the other countries been better than that in Germany. This also had a positive effect on the employment trend.

As is illustrated in *Table 3*, the development of annual working time in the five countries under consideration here varies greatly. In Great Britain and the USA the average annual working time has risen, while it has fallen in the continental European countries. In the Netherlands this is closely related to the increase in part-time work, but also with a general reduction in (full-time) working hours. The strong expansion of employment in the Netherlands is attributable above all to the considerable increase in part-time work. The Netherlands has by far the highest part-time rate of all the industrial nations, at 38% (1996), (as a comparison D: 16%). More than 60% of all working

women and about one sixth of all men are employed part-time. Since 1973 the part-time rate has risen almost explosively by more than 30 percentage points. This development was encouraged by the dynamic development in the service sector (with an employment share of 73.5%) and by a need to catch up with other countries with regard to female employment, which was relatively low in the Netherlands.

In Germany the drop in the annual working time can be put down to the expansion of part-time work to only a slight extent. What was more important was the general reduction in working hours.

Productivity development also varies considerably between the countries. Germany occupies a leading position. This also has to do, among other things, with the economic structure. In Germany the manufacturing sector, with its employment share of 35% (1996), plays a considerably greater role than in the other countries, such as Denmark with 26%, the Netherlands with 23% or the United States with 24%. In the manufacturing sector the productivity increase is generally higher than in the service sector. Especially an export-orientated country such as Germany, which is at the mercy of international competition in this sector, has to undertake constant productivity efforts. In Great Britain and the USA economic growth is borne far less by progress in productivity than in the three other countries. For the labour market this means that - under otherwise equal conditions - more jobs can be created. The downside is that low productivity growth does not fail to have an effect on wage increases (not to be confused with change in unit labour costs). According to information from the OECD, Germany (W) has had the highest wage increases in the last five years, the USA has had the lowest. The three other countries, Denmark, Great Britain and the Netherlands have seen wage increases lying between those of the other two countries.[8]

4.4 More employment through greater wage disparity?

Consideration of the average wage increase alone can result in misleading conclusions being drawn. Thus the low wage increase in the USA does not mean that all workers have low increases in income. What is also important is the disparity of wages and their development over time. As this is a key element in the current debate surrounding employment policy, this report is to look into it in more detail against the background of our country comparison.[9]

[8] OECD (1997): Employment Outlook, Paris, p. 7

[9] On this topic see also the report by Ulrich Walwei in Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1998

Table 4: **Wage disparity in selected industrial countries (1993 - 1995)**

Country	Relative interval of the top decile from the median income D9/D5	Differentiation trend (upwards) in the past 5 years D9/D5	Relative interval of the median income from the bottom decile D5/D1	Differentiation trend (downwards) in the past 5 years D5/D1
Germany (1993)	1.61	constant	1.44	falling
Denmark (1990)	1.57	rising	1.38	falling
Netherlands (1994)	1.66	constant	1.56	constant
United Kingdom (1995)	1.87	rising	1.81	rising
USA (1995)	2.10	rising	2.09	rising

Note:
The OECD divides the scale of earnings into deciles: D1 to D9. D1 is the income level just reached or not reached by 10% of workers. Or in other words: D1 represents the upper income level of the 10% of workers in the bottom category of earnings. D9 is the income level reached or exceeded by 10% of workers. D5 is the middle value (median) of the earnings distribution. The median income is defined by the characteristic that at least 50% of all workers receive earnings that are either below this median or are exactly equal to it, and at least 50% of all workers receive earnings that are either above this median or are exactly equal to it.

The measures D1/D5 and D9/D5 show the wage disparity, i.e. the particular relative interval from the middle value. If the wage disparity increases upwards and downwards, then one can conclude that there are more better-off workers and more workers with a lower income compared with the median.

Source: OECD (1996): Employment Outlook, p. 61/62

As regards wage disparities the continental European countries once again differ from the two Anglo-Saxon countries. Both in the USA and in Great Britain the wage disparity was considerably greater both at the upper and the lower ends and it has increased even further over time (*Table 4*). This is accompanied by the fact that there are both more employees with low earnings and more people with a higher income. The often heard claim that the growth in employment in the USA is only achieved by means of poorly paid "bad jobs", can not be confirmed in this way. However, it can not be overlooked that the downside of the American "employment miracle" can mean working poor. In many fields wages are paid which are far below average and which the workers have to accept since the very sketchy social system often does not grant any social transfers.[10] In this way there is a compulsion to take up a job, if necessary even a poorly paid one. In the USA though such jobs do exist, whereas in Germany these low-grade jobs have often been cut as part of rationalisation programmes.

The trend towards greater wage disparities was accompanied by an increasing number of households whose income was below the poverty line defined by the state. In 1982 the number of Americans affected by this was 34.4 million. By 1993 the figure had risen to its previous peak of 39.3 million. This is equivalent to a 15.1% proportion of the population. Children account for one third of this figure. The poverty problem is intensified by the frequent lack of social security. Thus 40

[10] Thus depending on the state, unemployment benefit amounts to only a fraction of the previous net wage (approx. 20 - 40%) and is only paid for a maximum of 26 weeks. What is critical - as already mentioned in footnote 5 - is health insurance cover: this is by no means automatically paid in the event of unemployment. As health insurance usually occurs via the employer, if the employee loses his/her job, he or she is forced to find another job with health insurance cover as soon as possible.

million Americans have no health insurance cover. More recent data show that real incomes are rising again with the improved economic situation and that the proportion of Americans with incomes below the poverty line has been falling again slowly since 1994 for the first time. It remains to be seen whether this means a permanent reversal of the trend. In 1996 the poverty line for a family of four was about $ 16,000 per year.

For some time the Organisation for Economic Cooperation and Development (OECD) has been increasingly attending to the issue of the working poor. This organisation has more of a "purely" market economy orientation. The OECD sees the danger of social exclusion and the loss of social cohesion.[11]

Two more comments are appropriate concerning the assessment of wage disparities:

(1) The differences remain less stark if a large part of the "working poor" manages to rise out of the low wage level in the course of time. Unfortunately this is only the case in the USA to a limited extent. Although the low-wage earners include, for example, many young people who are only doing temporary jobs, according to OECD studies some two fifths of all low earners are still in the lower wage segment after 6 years.[12]

(2) Wages represent only one form of income. If wages are increased by means of transfer incomes, then the economic situation of the workers affected improves as well. Even in the USA this occurs to a certain extent through social transfers. From a German viewpoint the "Earned Income Tax Credit" (EITC) continues to be of interest. EITC is a kind of negative income tax which has been in existence in the USA since 1975. Not only do low earners not have to pay any tax up to a certain upper wage limit, but they also receive an income supplement.[13]

Drawing conclusions from the American wage disparity reveals a dilemma for Germany: should perhaps here too upper incomes grow "in line with market conditions", i.e. disproportionately high? If people in Germany were also forced to work for low wages on this scale, a similar development to that in the USA could arise: a labour market trend which is impressive numerically, but at the expense of a society drifting apart with regard to income and becoming polarised, with all the well-known accompanying negative symptoms. The situation in Germany differs from that in the USA in so far as a considerably greater proportion of the workers is still employed in the manufacturing sector (35% as against 24%). Moreover this field is still strongly subject to foreign competition. Slowing down technological progress here and counteracting the "too high" productivity increases would hinder product and process innovations and make qualitative competitiveness worse without permanently improving price competitiveness.[14] In the course of globalisation and with the arrival of new competitors from central and eastern European countries, the competitive pressure is increasing further. This competition often occurs on stagnating markets, e.g. for consumer durables

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[11] See on this subject the annual reports "Employment Outlook" of the past years.

[12] The lowest wage segment goes as low as 0.65 of the median earnings. Women and the low-skilled run the greatest risk of remaining in the lowest wage segment. Cf. OECD (1997): Employment Outlook, Paris, p. 39. A study by the US Bureau of Labor Statistics also finds a high persistence of poverty among the groups affected, see Maya Federman et al. (1996): What does it mean to be poor in America, in: Monthly Labor Review, Vol. 119, No. 5, May.

[13] This scheme has been expanded considerably in recent years. It is estimated that for 1996 it resulted in the annual income of some 18 million households rising by an average of $ 1,400 per year. Cf. Council of Economic Advisers (1997): Economic report of the President, p. 186. See also Heinz Werner (1997): Die Arbeitsmarktentwicklung in den USA - Lehren für uns?, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung, No. 3, p. 599.

[14] Ronald Schettkat (1996): Das Beschäftigungsproblem der Industriegesellschaften, in: Aus Politik und Zeitgeschichte, B 26/96, p. 32.

with which households are increasingly supplied as prosperity increases.[15] The price elasticity of demand for these goods is low. When markets are stagnating there remain only two possibilities in the short- and medium term in order to remain competitive: either increasing productivity by means of process innovations (rationalisation, improvement of the organisation of work) or lowering wages (unit labour costs). According to Appelbaum/Schettkat[16], a third medium- to long-term possibility is to launch new innovative products onto the market which are appropriately price elastic. They argue as follows: the price elasticity of demand depends on the degree of maturity of the products and their market penetration. Products that have already achieved a broad circulation (old products) can only expand their market moderately even when prices fall, their demand is price inelastic. New, innovative products, on the other hand, in accordance with the definition, meet with an unsaturated market which can expand rapidly if there is an appropriate price development. The demand for these products is price elastic. With suitable pricing and demand, high wages can be paid here and employment can even be expanded. However, the authors themselves say that the employment policy problems can not be expected to be overcome in this way. Therefore as a further possibility the suggestion is made to convert the industrial society into a service society.[17] In the USA this has occurred with the aid of wage differentiation, with all the problematic effects of the emergence of the working poor. Schettkat therefore suggests making services marketable in certain cases by means of subsidies so that those employed in these sectors do not earn poverty wages.[18] Particularly in the case of private services there is still assumed to be an employment potential in comparison with the USA.[19]

5 Conclusions from the international experiences

So what can be deduced from the labour market analysis of the countries which have successful employment policy? First of all that there is a diversity of ways leading to more employment. This has already been indicated by breaking down employment and economic growth into their components. On the other hand complex causes, which can vary from country to country, are behind the individual components. Thus for example different rates of full- and part-time work can be concealed behind a change in the annual working time. Or a certain global productivity development is composed of very different trends depending on the sectors or groups of persons. This diversity

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15 Ibid., p. 32 ff.

16 Eileen Appelbaum, Ronald Schettkat (1994): Das Ende der Vollbeschäftigung? Zur Wirtschaftsentwicklung in Industrieländern, in: Wirtschaftsdienst 1994, No. 4, p. 193 ff. And: Ronald Schettkat (1996): Das Beschäftigungsproblem der Industriegesellschaften, in: Aus Politik und Zeitgeschichte, B 26/96, p. 33

17 Ronald Schettkat (1996): loc. cit., p. 33.

18 The subsidy can begin with consumption, i.e. at first cost-covering prices are asked which are then reduced e.g. by making them tax deductible or by means of vouchers. There are various possibilities for the subsidisation of production which can consist of a negative income tax for the workers or a reduction in taxes and insurance contributions (cf. Schettkat (1996): loc. cit., p. 34 f.)

19 In this context there is discussion in Europe of a subsidisation (generally through taxes) of personal services in the low-grade area. Such services are taken advantage of first and foremost by the better-off. It is still necessary to clarify the extent to which subsidised employment for this group of users is in line with free market principles. On the distribution of service vouchers in Europe, see European Commission (1996): European Seminar on subsidies for consumption and service vouchers, Brussels 15 May 1996, document soc/9054/96; Dirk Finger (1997): Dienstleistungsschecks in Europa - ein Modell für Deutschland? Discussion Paper FS I 97-201, Wissenschaftszentrum für Sozialforschung 1997. Regarding Germany see also: Knut Emmerich (1997): Wann rechnet sich die Haushaltshilfe?, IAB-Kurzbericht Nr. 4/1997; Ulrich Walwei (1998): Möglichkeiten und Grenzen der Schaffung eines Niedriglohnsektors, IABwerkstattbericht No. 5/1998

would become even clearer if the differences in the functioning of the labour markets (institutional regulations, systems of wage determination) or the extent of labour market policy were looked at. Such a comparison is firstly very difficult to portray and would also go beyond the scope of this report. Therefore reference is made to the preparatory papers for the workshop mentioned at the beginning of this report.[20] The country reports contain detailed comments on labour market policy and on the functioning of the labour markets. The conclusions that can be drawn from them are included in the statements made below on the success of the employment policy in other countries.

As far as the four countries studied here are concerned two conceptions stand directly opposed to each other: the strong market-economy orientation of the USA and Great Britain and the more strongly corporatist, consensus-based model of the continental European states of the Netherlands and Denmark. In the first case the trade unions do not play a major role in wage determination, wage disparity is high, protection against dismissal is not very strong, employment contracts are negotiated predominantly at company or individual level and the labour market therefore has a high degree of flexibility. The second pair of countries is characterised by a high degree of organisation in trade unions, low wage disparity and high expenditure on labour market policy measures, which are also reflected in high earnings-replacement benefits in the event of unemployment (unemployment benefit). Nevertheless both of the countries achieve a high level of flexibility: the Netherlands via the broad distribution of part-time work, and Denmark because of the low level of job protection and the possibility to exert pressure on unemployed people to induce them to take up employment or to participate in a training scheme. This compulsion to flexibility is accepted socially because the earnings-replacement benefits in the event of unemployment remain very high.

These comments are intended to show that there can be no patent remedies in the sense of "models" (systems) to be copied. Each country has its own background of history and traditions and a different scale of social values from which changes have to be developed. Nevertheless a look across the frontiers shows certain common features for employment policy success. These are given in the following paragraphs:

• A comprehensive macroeconomic approach was important for the success on the labour market. Experience shows that reforms have to be co-ordinated and e.g. matched to fiscal and social policy. Isolated partial reforms only result at best in partial success, either because they affect only certain labour market "niches" or because they are only temporary. Thus for example a subsidisation of jobs for certain groups of people can lead to deadweight and displacement effects, which on balance hardly raise the level of employment.

• In each case a favourable framework for investment and consumption was created, e.g. by means of a temporarily deficitary fiscal policy and an expansionary monetary policy. It was only with an improving economic situation that the budget was consolidated. In almost all of the countries a fiscal policy stimulus was at the origin of the economic upturn.[21] In order to stimulate consumption

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[20] Reference is made in this context to the four IABkurzberichte on the labour markets in the USA, DK, GB and the Netherlands, which were published in 1997 and 1998. They can be found in the Internet under http://www.iab.de and can be downloaded from there. A detailed description concerning the USA has been published in: Heinz Werner (1997): Die Arbeitsmarktentwicklung in den USA - Lehren für uns?, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung, No. 3, p. 585 ff. Furthermore reference is made to the country reports on the labour markets in Denmark, Great Britain, the Netherlands and the USA in Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1998.

[21] Cf. on this issue the country reports in Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1998. Also e.g. OECD (1998): Economic Outlook, Paris, p. A33 ; Thus the national deficits - measured in terms of GDP - reached a maximum in 1992 in the USA, in 1993 in Great Britain, in 1990 and 1992 in the Netherlands, in 1993 in

for instance direct taxes were lowered and indirect taxes on consumption were emphasised more strongly. This can take place by increasing value added tax or by introducing "green taxes", such as was done in Denmark or the Netherlands. This also includes raising the tax thresholds for low incomes.

• The markets for goods and services were liberalised. One example of this is Great Britain, which pushed ahead with privatisation in the 1980s and 1990s. One problem with this is that it generally results at first in a considerable decline in employment as a result of redundancies.

• Decentralised systems of wage determination allow circumstances in certain regions and companies to be better taken into account. This is inherent in the countries which are market-economy-orientated, as employment contracts are often negotiated individually or at enterprise level. Even in the Dutch and Danish labour markets, which are characterised by collective bargaining, flexibilisation possibilities with regard to working hours or remuneration have been increasingly introduced into the wage agreements in order to be able to take account of local/enterprise needs.

• Moderate wage increases have facilitated employment growth in the countries being studied. According to OECD documents[22], real wages in Denmark and the USA remained stable to a large extent during the first half of the 1990s. In the Netherlands they rose by only 3.3% during the same five-year period, while they increased by 10% in Germany. The figure for Great Britain lies between these two, although the increases in Great Britain must be seen against the background of a comparatively low wage level.

• By means of low non-wage labour costs, it was possible to reduce the costs of labour with a not unproblematic consequence for social security, since low contribution levels also result in low benefit entitlement levels. Alternatively, the social system must be funded partially or entirely via taxes, as is the case for example in Denmark. There are different philosophies regarding the role of social security (e.g. in the event of unemployment) between the Anglo-Saxon and the continental European countries. In the Anglo-Saxon countries it is seen more as a basic protection in case of need, intended more to ensure survival, whereas in the continental European countries the principle is more of maintaining as comparable a living standard as possible for a certain period at the onset of the risk - here unemployment.

• A certain degree of wage disparity is necessary, whereby the differences between the countries studied here are considerable. It must be taken into consideration that smaller countries with relatively homogeneous structures can only afford a comparatively low level of wage disparity. Larger countries with considerable regional differences in economic structure and education/training, such as the USA or Great Britain, show a considerable wage disparity.

This has certainly contributed in both of the countries to the increase in employment. However, problems can not be ruled out where wage levels are determined purely in line with market forces. A considerable body of 'working poor' can be the result. Thus, for example, in the USA 15% of the population lives below the poverty line. In Great Britain the proportion of people living below the poverty line is, at 22%, the second highest in the EU, the figure among children is the highest in the EU, at 32%.

In particular low-skilled workers in the industrial countries are affected by labour market problems, including wage pressure - because of technological change and the globalisation of the economy.

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[22] OECD (1997). Employment Outlook, Paris, p. 7

The countries studied here have reacted in different ways to this. Thus in the USA and GB there is a negative income tax (USA: Earned Income Tax Credit; GB: Family Credit) to top up low earnings. In order to promote the employment of the low-skilled, the continental European countries have continued to introduce reductions in social insurance contributions. Also measures aimed at skill-improvement or various types of wage cost subsidies are being taken.

• Finally what is also characteristic are the differences in the focus of labour market policy. In the market-economy-orientated countries, the USA and Great Britain, labour market policy does not play a major role - including the earnings-replacement benefits in the event of unemployment.[23] This results in a pressure to take up employment, even in poorly paid work. In contrast with this, among the OECD countries Denmark and the Netherlands spend a comparatively large amount on labour market policy. In this context, however, it must be pointed out that about two thirds of the expenditure relates to so-called passive measures, above all on benefit payments in the case of unemployment. A certain pressure is exerted on the unemployed, however, to take up employment or start a course of training.

The consequences in the differences in unemployment benefit payments must be outlined briefly.

In Great Britain and the USA earnings-replacement benefits in the event of unemployment are very low and are only paid for a short period. In the USA, for example, unemployment benefit only amounts to 25% - 35% of the last wage and is paid for a maximum of 26 weeks (as is also the case in GB). This results in a kind of compulsion to work. This is why long-term unemployment is also low, since if necessary people will also accept a poorly paid job. It is possible to move up again later on when the employment prospects improve. This is easier in the USA than here in Germany, as in the USA there is no stigma attached to taking up a job temporarily for which one is actually over-qualified. A short-term applicability of US conditions to Germany is difficult alone for the reason that there are hardly any low-grade jobs here. In the USA with its different labour market system, there are jobs of the most varied categories. In Germany the low-grade jobs have been cut to a large extent as part of rationalisation programmes (in the manufacturing industry) or they have fallen out of the regular labour market and can once again be found in the black economy.

In the Netherlands and Denmark unemployment benefits are high. In exchange a policy of "carrot and stick" is pursued; a wide range of employment and training schemes are offered, but at the same time a certain pressure is exerted on the unemployed to take up work. This can occur by means of a stricter interpretation of what is a 'reasonable' job, the requirement that the unemployed individual regularly proves his/her job search activities, the organisation of individual advisory and activity plans, or the obligation to take up a state-subsidised job or a start a training scheme. All in all a stronger trend of welfare to work can be detected, i.e. one should be better off working than drawing benefit payments.

The combination of social protection in the event of unemployment and pressure to take up work or take part in an employment or training scheme facilitates social acceptance of this "labour market flexibility". Taken alone such an approach does not automatically bring about an improvement in the labour market situation, as no additional jobs are created. From the point of view of reducing

[23] The expenditure on employment and training measures in 1995/96 amounted to 0.5% of the national product in the USA, 1.8% in Great Britain. Of this approx. three fifths went on unemployment benefit, which is comparatively low in both countries. In contrast with this the expenditure on labour market policy in Denmark stood at 6.6% of GDP and in the Netherlands at 4.8%. As a comparison Germany: 3.8%. Cf. OECD (1997): Employment Outlook, Paris

unemployment it makes sense if suitable jobs are also available. This is the case when the labour market is improving in general or when state-subsidised employment can be offered (job-creation measures or other forms of employment subsidy), or when a low-grade sector is already in existence (USA, GB) or is being promoted. In all other cases this measure only affects the distribution of the unemployment (no additional jobs are being created): the order of the people in the "queue" of unemployed is altered. This can by all means be useful when unemployed people are "reactivated" and it is possible to prevent them from slipping into long-term unemployment. Experience shows that the longer an individual is unemployed, the more difficult it is for him/her to get back into work again. A further effect of the "carrot and stick" approach can be that unemployed individuals do not turn up to the agreed "counselling interview" or do not accept the measures offered. They are then struck off the unemployment register.

To sum up it can be seen that there is a diversity of ways to increase employment. Therefore there are no model countries whose approaches can simply be copied as a kind of "patent remedy". The methods used to raise employment are always to be seen against the traditional and historical background of the particular country. Against this background, scales of social values have originated which in turn have resulted in priorities being established e.g. in the development of the social systems. Nevertheless a look across the frontiers showed common features for success in employment policy, and at least pointed out the areas that are important for success on the labour market. The individual conclusions that can be drawn for Germany from the experiences of other countries are explained in the paper by Ulrich Walwei in Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1998.

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